

## Chapter one Orientations of industrialization policy

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## Chapter One

# ORIENTATIONS OF INDUSTRIALIZATION POLICY

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By various economic indicators, Vietnam remains, at present, one of the least developed countries in the region. To strive for a development level comparable to that of other countries, Vietnam should be able to attain a high, sustainable growth rate for a relatively long period. If the growth rate of ASEAN countries and Asian NIEs in the coming years would be about 7% per year, that of Vietnam should be higher - above 10%. This 10% annual growth rate has been a reality in some Asian countries, notably in China. Coastal provinces of southern China have achieved an even much higher growth rate: above 20% per year. Now, it is for Vietnam to take appropriate measures to attain a high, sustainable growth rate. For five consecutive years, 1991-1995, Vietnam has achieved an annual average GDP growth rate of 8.3%. The main dynamics of this economic growth rate are the operation of market mechanisms, the liberalization of various economic sectors, the open-door performance of external economic relations... These dynamics for growth will continue to exert their fine impact in the coming years. However, the impact can hardly remain as powerful as it was during the early 1990s. For a higher growth rate, Vietnamese economy will need a stronger impetus which can only come from an acceleration of national industrialization and modernization, creating a fundamental economic restructuring towards modernity.

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What models of industrialization and modernization will Vietnam adopt? Which industries will play an important role? What will be the role of the state economic sector, the non-state economic sector and foreign capital in the course of industrialization and modernization?... These are the issues to be dealt with in this part.

## CHANGED CONDITIONS AND MODEL OPTIONS

England conducted its industrialization under completely different conditions. It was almost the first country which undertook industrialization. It could only start industrialization from agriculture, capital accumulation, market expansion, and labor recruitment from agriculture, and by brutal compulsory measures. The story of “*sheep feeding on human flesh*” was the story of England in that period, for it was necessary to appropriate peasants’ land to create pasture for sheep which supplied wool for the weaving industry, to lure peasants from their crop land to turn them into industrial workers, to undermine the autarkic economy, and to create a vast market of consumption. Moreover, as England was the first country to undertake industrialization, it had to do everything from the beginning, e.g. invention of the steam engine, the weaving machine. The road of conducting research, making invention, and experimenting with application in production all by oneself is a long and strenuous one. It took England more than 120 years, through brutal exploitation and plunder of millions of laborers, to achieve a world leading industry in the 18th century.

But the US, as a late-comer, was able to benefit from the experience of industrialization of European countries, to introduce European technology, to induce a flow of funds from Europe, to get support from European market... Those were the main reasons which helped shorten the US industrialization course to about 90 years.

It took Japan an even shorter time, approximately 50 years, to carry out industrialization whose salient feature was to put to use the technology, funds, and markets of both Europe and the US; at the same time, the

Japanese brought into full play their inherent cultural and social merits during the process of industrialization.

And then, no more than 30 years were needed by the NIEs for their industrialization, thanks to the assimilation of the experience of Europe, the US, and Japan. Nowadays, the ASEAN countries may need only about 20 years for their industrialization. Compared with England, the late-comers were able to shorten the road to industrialization by as much as a century. Admittedly, the number of countries which conducted successful industrialization is small. Apart from 25 countries belonging to the OECD (excluding the East European countries and the former Soviet Union), there are now about 10 newly industrialized countries, of which the 4 Asian ones (South Korea, Taiwan, Hongkong, Singapore) are the most successful. The bulk of the remaining 100 countries or so are still dallying over the road to industrialization.

Why was it that in the 17th and 18th centuries, only the European countries succeeded in their industrialization? Why is it that in this 20th century, with equal world conditions, only a small number of countries have succeeded in their industrialization? why have others failed? A reply to these questions necessitates an analysis of the most fundamental requirements of the industrialization course and the capability of meeting the exogenous and endogenous conditions as regards these requirements.

So far, it has been noted that the following requirements must be met for successful industrialization course:

**First, market,** the domestic market first, and then the world market. All along the history of mankind, no successful industrialization has been seen in any country which didn't need markets. Capital, technology, labor, materials... are of no avail, if they are put together for the production of commodities which find no outlets. Once there is a demand in the market, people will find fund, technology, resources... for production in view of meeting the demand. This is the reason why mankind had invented the

steam engine, the weaving machine... very early, but they were put to use a century later. The extension of the domestic market has been conducted through several economic and even compulsory measures. Compulsory measures were seen most clearly in Europe, particularly England, during the period of original accumulation, to create markets for industrialization. Policies of liberalization of trade, pricing, credits, enterprise... are of extreme importance to the expansion of domestic market. A country may have a population of millions, but its markets will be very small if everyone practises autarky. Another country may have just a few dozen million, but it will command a big market if its people engage in producing goods for sale and purchase other commodities for their needs. The development of the domestic market is the decisive condition for its extension beyond the borders. In the past decades, countries had to resort to wars in order to divide the world market. The First and Second World War broke out precisely for this objective. Nowadays, without wars one may still expand one's market on the world scope through the signing of trade agreements between nations on the basis of mutual benefits. This is one of the most important changes in international trade relations, which helps countries to find new markets without resorting to wars.

***Second, human resource.*** It is undoubtedly clear that human resource plays a role of decisive importance to the successful development as well as the industrialization course of every country. The quantitative factor of the human resource is highly significant, for it governs the scale of market and is of particular importance to the non-industrialized agricultural economies. But once industrialization is underway, the factors of quality, structure, and mechanism of utilizing of the human resource become more important. The labor structure needed for the course of industrialization should include statesmen, policy-makers, scholars, entrepreneurs, technicians, skilled workers... Without talented statesmen, policy-makers, and scholars, it is difficult to work out proper development strategies and policies; without resourceful entrepreneurs, funds, workforce, and technology will not be put

to efficient use; and without skilled technicians and workers, technology will not be introduced and applied successfully. The failure or deficiency of any one of the above-mentioned components of human resource will affect the course of industrialization. And the quality of the human resource is significant in that it determines the degree of success of the industrialization course. Without a contingent of skilled technicians **and** workers, a country cannot assimilate new, modern technology and **thus** entailing the risk of becoming a technological dumping-ground. It is the **system** of education and health care which determines the quality of the human resource. And a high quality requires an adequate financial allocation. An insufficient financial investment will surely reduce the quality of human resource. The mechanism of utilizing efficiently the human resource is the market mechanism. However, it is up to each country to decide on the selection, training, and utilization of talents - the quintessence of the nation in all domains, particularly economy and technology. Realities in the countries which conducted a successful industrialization course have shown that **defining an appropriate structure of human resource, making adequate financial investment in education and public health, and adhering to market mechanism in the utilization of human resource combined with a satisfactory preferential policy towards talents - constitute the fundamental foundation for success.**

*Third, technology and capital.* To conduct national industrialization and modernization, advanced technology and a concomitant big capital are indispensable. There are, possibly, two ways for acquiring advanced technology and fund. One is to mobilize the domestic resources to create new technology and to find capital; this was seen in Europe for its 120-year industrialization. The other is to induce the flows of advanced technology and fund from outside, which together with the domestic resources would create the necessary premises for the industrialization course. This is the short cut taken by the late-comer countries. The bigger, stronger, and more efficient the inflow of external technology and fund is, the shorter the

process of industrialization becomes. Naturally, a Government should have clear-sighted policies to be able to acquire new technology and fund efficiently from abroad.

The above-mentioned most important factors determining the industrialization course have undergone and are undergoing profound changes. If previously, the domestic market was the essential factor for the process of industrialization, we see now the ever more expansion of the world market, with the prevailing trend of shift to market economy in almost all countries and the formation of regional and global markets. Under the circumstances, to capitalize on the world market is becoming an increasingly decisive factor for shortening the industrialization course of a country. Here, we can see that all the most important factors for a shortened industrialization course are found abroad, such as advanced technology, fund, managerial experience..., and even human resource. In a less developed country, there can't be many resourceful entrepreneurs, so they should be invited in from abroad; the contingent of competent scholars, technical experts... can only be shortly augmented by the engagement of foreign experts or the sending of students abroad... The most significant change since after the cold war has been the trend of dialogue, and cooperation for development has enhanced and increasingly governed international relations. It is this trend which creates a new opportunity for the late-comers to make better use of the advantages of the world market for shortening their industrialization course.

The above changed world context permits Vietnam to opt for an appropriate, shortened industrialization-modernization model. This model will benefit from all the merits of the hitherto-available models, and at the same time take into account Vietnam's specific advantages and characteristics. Some people may wish to give a name to this model, such as export-oriented industrialization, or outward-looking industrialization... In my opinion, such an abbreviated terminology is insufficient to indicate all the important features of Vietnam's industrialization-modernization model

in the coming stage. Export-oriented industrialization, as a terminology, may convey a wrong implication that the model neglects the domestic market and other domain such as investment, services... Therefore, it may be necessary to mention fundamental features of the model, instead of an abbreviated terminology. I believe the fundamental features of Vietnam's industrialization-modernization model in the coming future will be as follows:

**First, particular attention should be given to the expansion of domestic and foreign markets, specially foreign market. For a backward country like Vietnam, foreign market is all the more important.** The reason is that exports to foreign market will provide Vietnam with the foreign currencies necessary for the import of new technology materials... needed for its business operation. The wider Vietnam's foreign market is; the bigger its capacity for increasing exports to acquire foreign currency to import more technology and materials needed for its national industrialization-modernization course. The importance of foreign market is so great that no shortened industrialization-modernization course is possible without it. Thus, it is not without reason that the terminology of export-oriented industrialization has come into being. For a country having a considerable domestic market like Vietnam, a combination of both the foreign market and the domestic market will render it more attractive. Here, it is up to Vietnam to link the domestic market with the foreign market, to renovate the domestic market institutions in conformity with the foreign market, and to integrate into the world market, so that any commodities turned out by Vietnam may find easy outlets abroad.

**Second, the decisive factor for the breakthrough and expansion of the domestic market and foreign market is the quality of Vietnam's human resource; and to accelerate the upgrading Vietnam's human resource quality, there is no other way than to cooperate with the economic centers which command the highest quality human resource.** Though Vietnam's literacy rate of 90% is fairly high, and the bulk of its



people have received general education, the Vietnamese people's level of expertise, techniques, foreign language proficiency... are, generally, low. Also, there is a big gap concerning qualifications between the teachers at various grades of Vietnam and those of advanced countries. The same can be said about curriculums and textbooks. Therefore, the upgrading of Vietnam's education system has become an urgent task. The shortest way for Vietnam is to send as many students as possible to advanced countries for study, to engage able teachers from advanced countries for Vietnamese schools, to call on overseas Vietnamese experts to come home for work, to attract skillful foreign entrepreneurs into the country for business operation, to upgrade the system of elementary education and vocational training...

Third, **to induce foreign advanced technology and funds.** Advanced technology is of decisive significance for the success of Vietnam's industrialization-modernization course. Vietnam hasn't got such advanced technology, and the only short cut to modernization is for Vietnam to acquire advanced technology from abroad, mainly from the most developed countries. There are different ways to induce advanced technology. *One*, Vietnam may step up exports to acquire foreign currency, or take long-term loans from world financial organizations, to afford the import of advanced technology. This requires from Vietnam a workforce knowledgeable in economics and technique so as to select an appropriate technology, to utilize it efficiently, to produce marketable commodities abroad, and at the same time, to be able to pay back the debts and to gain profits. This also depends on the willingness of advanced countries to transfer their advanced technology and to offer loans and market concessions. This is, by no means, an easy road. Quite a number of countries have failed for their choice of an inappropriate technology, their investment in poorly efficient domains and their unsuccessful attempt to find outlets for their commodities; thus, they could not recoup the capital and clear their debts. However, some countries did succeed, notably Japan, Taiwan, South Korea... *Two*, Vietnam may induce foreign direct investment, which also means inducing advanced technology. Foreign transnationals which make investment in Vietnam for

business operation would have to bring in advanced technology. They would also have to find outlets for their commodities abroad, to train Vietnamese technical workers employed by them... But to be able to induce much foreign direct investment, Vietnam should have liberal laws, modern socio-economic infrastructure, well trained and skilled workforce... The more foreign investment is brought into Vietnam, the more modern industrial installations are built up, thus accelerating the industrialization and modernization course. Malaysia considers the inducement of foreign direct investment as the essential factor for its industrialization course.

**Vietnam may have to take both measures: internal accumulation and foreign loans in order to import advanced technology and, at the same time, to step up the inducement of foreign direct investment. Under the present new world conditions, Vietnam may induce foreign direct investment more favorably and this may become a highly important factor for Vietnam's shortened industrialization-modernization course.**

With the above-mentioned three main features, Vietnam's industrialization-modernization model should take maximum advantage of the process of globalization and regionalization, the merits of the more developed economies, and thereby put to better use the domestic resources of market, raw materials and workforce at the same time.

## OPTIONS FOR ECONOMIC BRANCHES

There are several ways to divide economic branches, but I am splitting them here into 4 big groups: a) the socio-economic infrastructure; b) the extractive industry and agriculture; c) the manufacturing industry; and d) the services. This division may be convenient for defining the priority options of the state and the private economic sectors.

The financial resource of any state, even as rich as the US, is invariably constrained regarding the great demand for expenses. Therefore,

everyone of them has to make careful calculation and consideration for priority options. The Vietnamese state's financial resource in the coming decades is much limited against the requirement for development investment. The State has, thus, to think hard before making investment in such branches as are capable of creating a fast, vigorous, and sustainable development of the national economy. An analysis of the above-mentioned economic branches shows us that the socio-economic infrastructure system includes communications, transport, airports, seaports, energy, water supply and drainage, education, public health... which are related to all other branches, serving as a premise for their development. A backward system of communications would retard and interrupt the flow of information, undermining economic contracts and doing harm to businessmen of various trades. A backward system of roads, airports, seaports would push up transport costs and protract transport time... A short supply of electricity and water would jam all business operation. A poor system of education and public health would not ensure the supply of a good workforce for business. But the building of the socio-economic infrastructure is extremely costly and complicated, with the possibility of a slow capital recoupment, poor profitability and even losses. Therefore, few private businessmen want to make investment in this domain. The State is the only one, representing and being accountable to the society, who has to bear the burden of building and doing business in socio-economic infrastructure, despite the high risk of losses. In developed countries, most of the state budget allocated to development investment is spent on the field of socio-economic infrastructure, though their infrastructure is already fairly good. In Vietnam, the socio-economic infrastructure is generally very backward, even non-existent or paltry in many places. Several Vietnamese seaports boast favorable physical conditions by world standards such as water depth, proximity of economic zones..., e.g. Cai Lan, Hon La, Cam Ranh, Thi Vai..., but no adequate investment has been made for their modernization. The same can be said of such important international airports of Vietnam as Noi Bai and Tan Son Nhat. The network of roads, rails and rivers, which are the

main arteries linking economic zones with seaports, remain backward and primitive. The system of schools and hospitals which is deteriorating is calling for investment in view of improvement... The amount of fund needed for the building and modernization of infrastructure is enormous, possible to the tune of 100 billion USD, while every year the Vietnamese Government cannot afford more than 2 billion USD. Therefore, it is very necessary to earmark bigger fund for the building and modernization of the socio-economic infrastructure, considering it first priority. And here, precedence should be given to the following fields: energy, telecommunications, seaports, airports, land roads linking seaports and airports with economic centers and industrial areas, elementary education, and vocational training.

Naturally, the state should not only make investment in the building of socio-economic infrastructure, but also in the development of economic branches which serve as the basis for social stability. First of all, it is agriculture, for agriculture which occupies about 80% of the population should ensure sufficient supply and reserve of food and foodstuffs for the entire society, is the source of labor for the industrialization course, and the market for industries... At present, Vietnam is self-sufficient in food, has some reserve, and is exporting from 1.5 to 2 million tons per year. Now, a question arises as to whether Vietnam should go on developing its agriculture in the direction of rice production and promotion of rice export, or shift to growing more fruits, vegetables, and export industrial crops, which is more profitable? Such a shift necessitates a technological market and funds. These are the problems which should be dealt with on the basis of the socio-economic efficiency. Vietnam is endowed with some valuable natural resources such as oil and gas, coal, bauxite, iron ore... In the early period of industrialization and modernization, Vietnam may have to give some priority to developing these branches and to sell the resources for fund accumulation.

The manufacturing industry is the most important branches which determines the level of development, industrialization, and modernization of a nation. At present, the industry has just started to develop, and represents a low proportion in Vietnamese economy. In my opinion, the Vietnamese Government should encourage domestic and foreign investors to select and to build up such branches of manufacturing industry as are appropriate for Vietnam. In the immediate, they may be garments, textiles, processing of agro-forest-aquatic products, construction materials, metallurgy, electronics, informatics... Regarding some new important branches, the Government may have to make investment for building them, or to make planning and call for domestic and foreign capital to cooperate in building them. Vietnam has the advantage of being in the center of Southeast Asia and its good seaports, which facilitates a vigorous development of the assembly of products exported to the region. **The export processing industry should be given the most attention**, for it determines the position of Vietnam in the world market. Foreign transnationals play a very important role in the development of this industry, for they are knowledgeable of the world market, products, quality and prices. Vietnam ought to have a policy encouraging foreign companies to make adequate investment in these branches.

Proper attention should also be given to the service industry, above all, the branches which are directly related to the industrial domain such trade, consultancy, insurance, information, advertisement, marketing, banks... Without these services, other industries can hardly operate with efficiency. Then comes the tourist industry. Vietnam is endowed with natural, cultural and historical conditions favorable for the development of tourism. But touristic development also requires enormous fund investment, and an ample inflow of tourists. Only a foreign partnership can help Vietnam meet these requirements.

Below is a more detailed analysis of branch structure:

### **Socio-economic infrastructure:**

*The network of post and telecommunications* in Vietnam has taken a step forward in modernization, but there remains a gap compared with other nations in the region. In the coming 10-20 years, the modernization of post and telecommunications will have to be a step ahead, ensuring a smooth communication among economic centers, cities and economic zones in the country and between them and foreign countries, and at the same time, to lower post and telecommunication fees.

*The Vietnam Airline*, in recent years, has made some progress, but is lagging far behind the countries in the region. In the coming future, efforts should be made to upgrade the three international airports of Noi Bai, Tan Son Nhat, and Da Nang to world standards, and to improve other airports belonging to cities, industrial zones, and touristic areas. Joint venture and cooperation with foreign airlines should be undertaken to open more air routes, procure more aircraft and necessary facilities.

*Sea and river routes:* In the coming future, it is necessary to renovate and expand the ports of Hai Phong and Ho Chi Minh City, to build the ports of Cai Lan, and Vung Tau-Thi Vai in to deep-water ports, and to expand the available ports of Da Nang, Cua Lo, Quy Nhon, Nha Trang... All coastal provinces should have their own ports. A linking network should be built among all seaports and river ports. Coastal and sea-river transport should be developed. More ocean liners, coastal and sea-river ships should be built and purchased.

*Railways:* The North-South railway should be renovated and upgraded, East-West railways should be built, particularly those connecting Laos, Thailand, and Cambodia with key economic zones.

*Land roads:* Highways connecting key economic zones with seaports should be built, first of all the Hanoi-CaiLan-Haiphong and the HoChiMinh-BienHoa-VungTau highways, and the entire national highway 1A upgraded. Horizontal axes should be multiplied, and road 12, highways national 8, 9,

19 connecting central Vietnam ports with Laos, and Thailand improved. All the national roads in key economic areas of North, South and central Vietnam connecting with seaports, river ports and airports should be upgraded. .

### **Development of industries**

*The industry of fuel and energy* should focus on the following spheres:

- To continue to expand joint-venture and cooperation with foreign countries to explore, extract, and process oil and gas, and coal. It is expected that in 2000 Vietnam will attain 20 million tons of crude oil, 5 billion m3 of gas, and 8.6 million tons of coal.

- To continue to build and to complete the Yali, Ham Thuan, Da Mi, Ban Mai, Song Dinh hydro-electric stations; and to prepare to start the construction of hydro-electric stations in Kong Tum, Gia lai, Binh Thuan, Son La... To complete the construction of the Phu My thermo-electric plant, the Phu My II mixed-gas turbine factory, the Pha Lai II and Quang Ninh thermo-electric plants.

- To build gas-conducting pipelines to the main land for liquefaction, and as fuel for thermo-electric plants.

- To build a national electric network connecting with sub-region electric networks (Cambodia, Laos, Thailand, China) for electricity exchange.

Here, there is a problem to deal with: the proportion of hydro-electricity is now relatively high in the total output of the country. Therefore, it may be necessary to increase the proportion of thermo-electricity, particularly the thermo-electric plants operated by gas.

*Construction materials* industry. In its industrialization course, Vietnam will need more and more construction materials such as cement, bricks, tiles, stone, and such high-quality materials as sanitary ceramics, floor tiles, marble, glass... To meet these increasing requirements, Vietnam

will undertake joint venture with foreign companies for the manufacture of cement and high-quality materials in the provinces which have favorable conditions such as Hai Phong, Quang Ninh, Hai Hung, Nam Ha, Ninh Binh, Thanh Hoa, Nghe An, Thua Thien-Hue, Kien Giang... Domestic enterprises are to be encouraged to produce new construction materials. Extraction of iron ore and recovery of scrap metals are to be stepped up to increase the production capacity of construction metals. Joint venture and cooperation with foreign countries will be expanded, and the existing metallurgical plants upgraded together with the construction of new steel plants.

The industry of fertilizer and chemicals will be developed on the basis of the oil and gas industry.

*Electronics and informatics industry.* The electronics and informatics branches should be gradually built into a thrust industry. In the initial period, Vietnam may cooperate with foreign companies for the import of chips and assembly subcontracting to meet the demand in the home market and for export. Later, some spare parts may be manufactured in the country, and finished-product assembly done on subcontracts with a strong orientation to export.

Informatics services should be developed to meet the domestic requirements and participation in the world information network enhanced.

*Consumer goods and food industry.* A vigorous development should be envisaged for textile, garments, footwear, handicraft and fineart articles, ceramics, glass wares...for domestic consumption and for export. Processing industry should be developed in connection with agro-forest-aquatic products, first of all husking and polishing rice for export, treating vegetables and fruit for export, processing sea products, timber... The potential for developing these branches is really great, for the available materials in the country, the abundant workforce, and prospective markets. The problem now is to introduce appropriate technology and to induce sources of fund within and without the country.



*Engineering industry* of Vietnam is, generally, very backward. The building and modernizing of Vietnam's engineering industry will depend on Vietnam's advantages and ability to capitalize on the merits of regional and world markets. In the first stage, Vietnam should undertake joint venture with foreign companies for assembly subcontracting in connection with various kinds of facilities in the service of economic branches, from machine tools to automobiles, motorcycles, sewing machines... and may export part of these products. The second stage will be for cooperating with foreign companies to manufacture some chips and accessories in Vietnam and to step up product assembly subcontracting in view of export to the region and the world. Which branch of engineering industry should be chosen as a thrust? An answer to the question will take more time for the entrepreneurs to consider the aspect of efficiency. In my opinion, the manufacture and assembly of transport facilities such as boats, automobiles of various types, motorcycles, farm machines and tools, weaving machines, sewing machines... may be the branches with the best prospects in Vietnam, for they may make use of Vietnam's comparative advantage concerning location and human resource.

## THE STATE'S ROLE

In the course of industrialization and modernization of the country, the state plays an extremely important role. This role is manifested, first of all, in the formulation of economic policies. I believe the most important economic policies to be worked out by the state are as follows:

- Policy of economic structure encompassing sectoral structure, economic component structure, territorial structure, enterprise-scale structure, technological structure... so as to ensure an open-door and export-oriented economy;

- Policy of market ensuring for market relations to exert their impact in the spheres of consumer goods, production and services, currency and capital, fixed assets, labor, technology...

- Policy of finance and currency ensuring the stability of the national currency; mobilizing, allocating and using sources of fund with increasing efficiency;

- Policy of human resource ensuring the education, training, and utilizing the human resource most efficiently;

- Social and environmental policy ensuring social equity, progress, security, and stability; and control over environmental pollution;

- Policy of external economic relations ensuring smooth trade relations with foreign countries and the successful inducement of sources of fund abroad;

- Policy of foreign relation, security and national defence to preserve political stability, and to maintain an environment of peace, friendship and cooperation in the region and the world.

The above-mentioned policies of the Government should aim at the following main objectives:

First, **orientations for the national industrialization and modernization course.** Vietnam's industrialization and modernization course is oriented toward socialism. The essential content of the socialist orientation is defined as building a society of prosperous people, strong country, equity and civilization. The second important orientation is an emphasis on export while taking into account the demand of the domestic market. The third orientation is the assertion of the dominant role of the state economic sector and, at the same time, the inspiration for development of the private, cooperative... economic sectors in the permitted domains. The fourth orientation is the concentration of the state's capital investment in the construction of socio-economic infrastructure, key economic zones...

The above-mentioned main orientations are obviously different from those for the former industrialization after the Soviet model, i.e. to give priority to the development of heavy industry, to expand the state economic sector which dominates over all domains, to emphasize import-substitute and inward-looking economy...

Second, on the basis of the above-mentioned orientations, the state should, by its economic policies, decide on the **priorities for the industrialization course**. These priorities are the branches and spheres of export and inducement of foreign investment; the open-door areas, the coastal cities and provinces; the socio-economic infrastructure establishments in the service of export and cooperation with foreign countries; the labor-intensive technologies producing goods and services to meet the requirements of export and the domestic market...

Third, **to ensure high, sustainable growth and efficiency.**

High growth and efficiency are Vietnam's urgent requirements, only by which may Vietnam shorten its course of industrialization-modernization to catch up with other nations. But it must be a high and sustainable growth. To attain this, Vietnam should pay attention to developing education and heightening the people's knowledge. Also, adequate attention should be paid to developing agriculture and rural economy, ensuring equity in development, eradicating hunger, alleviating poverty, controlling to the maximum environmental pollution, ensuring stability, social security...

Fourth, **to ensure a healthy impact of market mechanism** in the economy. Market mechanism has exerted its impact on several spheres of Vietnamese economy. To accelerate the industrialization-modernization process, the Vietnamese Government should have appropriate financial, monetary, pricing, trade policies to create a favorable environment for market mechanism to exert a healthy impact in all fields: commodities, services, currency, capital, fixed assets, labor... A feeble impact of market mechanism in any field may affect market efficiency. In Vietnam now,

market mechanism is found very feeble in the field of currency, capital labor, fixed assets... This is one of the most important reasons which lessen market efficiency, thus badly affecting business activities in industry.

The state does not only have the role of working out proper policies, but has to institutionalize them into laws and to organize their strict implementation. To do this, the state must have a good system of education not only in schools, but in all mass media; **a good organizational apparatus** which is devoid of bureaucratism, corruption, trouble-making as regards the people; and a **strict discipline** for every one to abide by the laws. The Vietnamese Government has promulgated numerous laws in the conformity with market mechanism, though these are not sufficient; a program of education reform and renovation of the mass media system is underway; an administrative reform has started; and drastic measures have been taken against illegal deeds (such as those in connection with the protection of Yen Phu dyke in Hanoi, with the observation of traffic regulations and street order in August 1995...)

An assessment of policies of economic renovation promulgated by the Vietnamese Government in recent years has showed that they are basically correct and consistent with Vietnam's specific condition; therefore, they have exerted a positive impact on economic development, bringing about remarkable achievements which are recognized by the world community. In the coming years, the realities of industrialization and modernization of the country will require Vietnam to go on improving and renovating its economic policies in view of the above-mentioned objectives.

#### THE DOMINANT ROLE OF THE STATE ECONOMIC SECTOR<sup>(1)</sup>

The state economic sector comprises the financial system, the State Bank, and the state-owned enterprises. The state economic sector plays an

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<sup>(1)</sup> See Chapter 1 in *Vietnam's economic renovation and foreign economic policies* pp.42-53, Social Science Publishing House, Hanoi, 1995.

important role in any market economies. If the state finances constantly suffer from serious deficits, the currency loses its value, the credit system is in confusion, and the state enterprises incur losses, the national economy, surely, cannot develop steadily and efficiently. The dominant role of the state economic sector in Vietnam is asserted on this basis. But how should this dominant role be interpreted? Since 1986, the dominant role of the state economic sector has been interpreted in different ways. Before 1994, it was thought that the state economic sector had to control all the essential and important economic branches, to represent an ever bigger proportion in the national economy, and to set an example as regards efficiency and productivity. But realities since 1991 have shown that it may be right for the state economic sector to control the essential economic branches, but not all; for example, the oil and gas branch is very important to the development of Vietnam's economy now, but most of it is under the control of foreign companies. The proportion of state economic sector does not necessarily augment day by day, for we have seen quite a few spheres in which the proportion of state economic sector has diminished but their operation has improved, meeting the social demand in a better way and contributing more to the state budget, such as the retail trade, transportation service, agricultural service...<sup>(2)</sup> Concerning efficiency and productivity, the problem is that the state economic sector in Vietnam as well as in other countries has performed with proper efficiency than the private economic sector. Stemming from this reality, since 1991, there has appeared a new interpretation of the dominant role of the state economic sector. The Vietnam Communist Party VIIth Congress has defined that *"the state economic sector is consolidated and developed in key branches and domains, takes control of essential enterprises, undertakes the business activities in which other economic sectors have no conditions to make*

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<sup>(2)</sup> In 1994, non-state retail trade made up 76.5%, agro-forest-fishery 98%, and services 91%

*investment... integrates with and supports other economic sectors, ... exercises the function of a state macro-managerial tool*<sup>(3)</sup>.

The above mentioned perception of the dominant role of the state economic sector is quite new compared with before, and it is getting closer to the general perception in the countries of market economy. Driven by this new perception, the state economic sector has undergone highly important renovation: exercise of the principle of autonomy and self-accountability concerning the business results after market mechanism, drastic reduction of state subsidies, dissolution of protracted loss-incurring enterprises, re-evaluation of the assets of enterprises and implementation of the regime of capital delivery and preservation, equitization... These measures have brought certain results: approximately 6,000 small-scale enterprises have been dissolved; following a re-registration of the state economic sector, there remain over 6,000 enterprises which hold a dominant position in key branches and spheres of the national economy, and make a bigger contribution to the state budget; the number of loss-incurring enterprises has subsided; many enterprises are getting well adapted to market mechanism; a number of enterprises have performed better... However, the economic efficiency of this sector is still low. If sufficient costs are taken in connection with asset value and depreciation, all debts cleared, price indexing reckoned with, rents of land and location included, all subsidies eliminated..., we can say that few state enterprises are making real profits. Not a few negative phenomena are seen in state enterprises, such as corruption, smuggling... The poor efficiency and negative manifestations of the state economic sector have affected the general efficiency of the economy and done harm to the business environment..., for at present, the state enterprises are still holding an estimated 80% or more of the fixed assets in the economy, occupying the most convenient business location for such branches as banking, trade, industry, services, transportation,

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<sup>(3)</sup> Documents of the All Nation Representative VIIth Party Congress, Truth Publishing House, 1991, Hanoi, p. 116

communications, insurance, construction, material supplies; controlling most of the area for forest and long-growth industrial crops, employing up to 90% of all technical workers, etc.

At present, renovation of the state economic sector is an urgent task in the new stage of Vietnam's economic development, the stage of accelerating industrialization and modernization. Among the policies recently promulgated by the Vietnamese Government, we see the following important ones:

a) *The law on state enterprise*, promulgated in 1995, which makes a **distinction between the state enterprises whose function is to operate in the sphere of public services, and those which operate after business mechanism in the market.** The public service enterprises may enjoy state subsidies and loss compensation to a certain extent. As for the enterprises operating in other spheres, they are to exercise financial self-accountability. Thanks to the law, the number of enterprises subsidized by the state diminished; and for those which do not belong to this bracket, they will have to be dissolved in accordance with the law on bankruptcy if they incur constant losses.

b) The Law on state enterprises also provides the *legal framework for the establishment of big general companies*. A number of general companies have so far been established in the spheres of cement, electricity, coal, airline, post and telecommunications... The establishment of general companies exerts some positive impact: to separate the ministries' administrative management from the general companies' business management; to concentrate the right of business management and various resources into one hand; to start a preliminary formation of conglomerates which command great economic, technological potentials... However, the very birth and operation of these general companies have given rise to some problems. These general companies have given rise to some problems. These general companies have become monopolies operating in a sphere

created and permitted by the state. This monopolistic operation serves as the source of several adversities, such as price rise, notably in mid-1995 when cement price doubled, elimination of competition in the country... In fact, no competition is possible where a Corporation is established and operates; it has the entire market to itself. So we have seen at least two adversities as above mentioned. A possible solution to the problem may be to allow the general companies to engage in a multi-line undertaking, e.g. the coal Corporation may deal in electricity, transportation... in competition with other general companies; and to allow member companies of a Corporation to operate independently in business and to compete with each other. This is an issue for further study.

c) *Elimination of the "principal manager" regime.* As far as state enterprises in Vietnam are concerned, if they are centrally run, they are under the management of the authorities at different levels. This "principal manager" officials interfere too deeply in the enterprise's business operation, the enterprise has to apply for too many permits and is subjected to too frequent and cumbersome inspection... Therefore, the Vietnamese Government has decided to do away with the "principal manager" regime. But how to do it and what substitute should be? Recently, the Vietnamese Government has established the General Department of Capital Management, under the Ministry of Finance, which is to help the state in the management over the capital entrusted to various state enterprises. This may be a step towards eliminating the "principal manager" regime.

d) **Equitization.** The Vietnamese Government has undertaken a pilot program of equitization among a number of state enterprises, by Decision No. 202/CT dated June 8, 1992 of the President of the Council of Ministers (Now the Prime Minister). State enterprises of the following type are eligible for equitization:

- Medium and small-scale enterprises



- Enterprises which are profitable, or ridden with difficulties but have good prospects.

- Enterprises which do not belong to those having 100% capital investment by the state.

Decision 202/CT of the Government also stipulates the objects permitted to buy enterprise shares as follows:

- Employees and workers of the enterprise
- Domestic socio-economic organizations
- Individuals in the country

Shares are not to be sold to foreigners yet. For the pilot equitization program, each individual may not own more than 5% of the totality of shares, and each juridical person not more than 10%. Preferences are also given to the working people in the equitized enterprises.

By the end of 1994, 21 state enterprises had registered for the pilot equitization program. Of these, 9 were deploying their equitization projects. The result is that 3 of them have accomplished the issuance of equities and officially shifted to operation as stock companies: the General Forwarding and Agency company, the Ho Chi Minh City Mechanical-Electric Refrigeration Enterprise, and the Hiep An Footwear Factory. The Legamex company is getting ready to issue shares, and the other 5 are giving the finishing touches to their projects. The performance of the 3 equitized enterprises in recent years has manifested better progress and efficiency than before.

But why is it that equitization is unfolding so slowly, in spite of the fact of better performance by the equitized enterprises? Of the existing 6,000 state enterprises, only about 300 are large-scale ones, and the rest are medium and small-scale ones, most of which are eligible for equitization. The mere number of 21 enterprises which registered for equitization bears evidence to the fact that managers of the state enterprises are not willing to

undertake equitization, for equitization will affect their position and interests. If the Government does not have a program of equitization of an compulsory nature and just waits for a voluntary action on the part of state enterprises, it is certain that the program will hardly materialize.

e) *Renovation of managerial organization vis-à-vis state enterprises.* In this respect, the orientation is to exercise a representative regime for state ownership in managing enterprises, to set up the enterprise board of management, to ensure the powers and responsibility of the executive director, to renovate the accounting and auditing work in accordance with market mechanism... These renovations are aimed at ensuring the state ownership and, at the same time, creating conditions for the enterprises to operate more efficiently, overcoming bureaucratism, corruption, waste...

In the coming future, the above-mentioned policies will be implemented on a wider scope and more intensively. But it would be an illusion to expect a sure profitability and efficiency in the operation of state economic sector on the strength of these policies. In my opinion, high profitability should not be the only objective of the state economic sector; there are several other objectives to be attained: orientation for the national economy, support to other economic sectors, serving as a tool for state macro-economic management... The latter objectives are bound to reduce the profitability and efficiency of the state sector. Therefore, its importance does not lie in high profitability, but in its social functions.

### **To encourage the development of private economy**

Private economy in Vietnam includes household economy, individual economy, one-owner private enterprise, limited liability company, stock company with fund contribution from private persons... Before 1986, private economy had somewhat expanded. In 1991, the socio-economic strategy adopted by the Vietnam Communist Party VIIth Congress asserted: *"Private economy may develop without limitation as to scope and operation areas in the branches and lines which are not banned by laws"*. This

assertion has been institutionalized in Vietnam's Constitution, Law on private enterprises, Company Law, and Government decrees. Thanks to this firm legal foundation, the private economic sector has seen remarkable growth in quantity, operation scope, business scale, and organizational form. So far, tens of thousands of private enterprises have emerged with a diversified operation. In 1994, the proportion of non-state economic sector (mainly private) in GDP was 98% in the agro-forest-fishery branch, 76.5% in retail trade, 91% in services, and 28% in industry.

To step up the course of national industrialization and modernization, the Vietnamese Government should be consider the orientation to be adopted vis-a-vis private economy in its continued renovation of economy policy. I believe the following issues should come under serious study:

First, it is necessary to **affirm the long-term feature of the private economic sector and its socialist orientation**. Previously in Vietnam, there was a definite classification of two economic sectors: the socialist sector which included the state enterprises and the cooperatives, and the non-socialist sector which was the private economy. This simplistic classification has given rise to an opposition between the two economic sectors, compulsory measures for participation in cooperatives, and elimination of private economy. Renovation realities in Vietnam have shown that such simplistic classification is not beneficial to economic development. Vietnamese economy is oriented towards socialism (in the sense of prosperous people, strong country, equitable and civilized society), that is all economic sectors should be so oriented, not only the state sector and the cooperatives. This orientation compels all economic sectors, state, cooperative, private, to contribute to making the people prosperous, the country strong, and the society equitable and civilized. This socialist orientation presupposes a legitimate business operation for all economic sectors, high growth and efficiency, worthy contribution to the state, a guarantee of proper interests for the working people... Those enterprises whose operation is not in keeping with the above-mentioned principles, be

they state-owned ones, are considered as derailed from the socialist orientation. The private enterprises which abide by these principles are definitely socialist oriented. These principles are of a long-term significance, not for a few decades but possibly a century. Therefore, the private economic sector will have a long-term role to play in view of these principles. These assertion of the long-term feature and socialist orientation of the private economic sector is of much importance, for the private enterprises will feel assured to engage in business undertaking and free of any political inferiority complex.

**Second, the state should cooperate with and support the private economic sector.** A state policy of cooperation with and support to the private economic sector should be manifested in the following respects:

Before the promulgation of its economic policies, the state should consult private entrepreneurs who are to implement these policies and to come under their impact. This consultation will create a consensus between the state and the entrepreneurs, prepare them for a favorable response to the promulgated policies, and to minimize the losses to their interests and to society.

- The state should give them support in finance, investment, managerial and technical training, economic information, favorable business environment... The support here does not mean subsidizing, but creating conditions for them to take loans, induce investment, undertake joint venture...

- The state should protect private businessmen's legitimate rights such as their lawful possessions, their right to free enterprise...

**Third, the state should renovate the administrative procedures** which cause encumbrances to private entrepreneurs, such as:

- To eliminate cumbersome and complicated formalities in issuing licences for business, establishment of company, land use and construction of business premises, export and import, emigration and immigration... This

will help reduce the costs for businessmen when they have to apply for licences and increases their lawful profits.

- To continue to promulgate such necessary laws such as civil law, anti-monopoly law, trade law..., creating a favorable legal corridor for private entrepreneurs to operate in, thus building a legal basis for the elimination of unreasonable administrative formalities.

- To mete out due punishment against those who encroach upon the laws, perpetrate graft and corruption, and infringe on private entrepreneurs' legitimate interests.

The Vietnamese people, for many years, have been used to an economic mechanism which disdains private economy and frowns at well-off persons. Therefore, the state should, by its policies, create a new mentality among the people, encouraging everyone to get rich lawfully and holding private entrepreneurs in respect.

### **To inspire the inducement of foreign direct investment (FDI)**

FDI is the capital of foreign private businessmen. Thus it belongs to the private economic sector. The above-mentioned policy toward the private economic sector is also of significance to foreign companies. Foreign direct investment may not have made up a big proportion in many countries, including the Asian NIEs. But in some ASEAN countries, such as Malaysia, it represents as much as 60% of Malaysian total investment capital for development. FDI is playing an ever more important role, which is manifested, first in its link to new technology. Foreign entrepreneurs coming into Vietnam for business undertaking have to bring along the technologies which are newer than those available in Vietnam, so as to create and to secure their own comparative advantages. What new technologies to be brought in depend not only on them, but also on Vietnam's actual conditions such as technical workers' expertise for an efficient utilization, the service network for maintenance and repairs when necessary... Second, foreign companies have much better knowledge of

world markets than Vietnamese companies have; therefore, they can do well the job of marketing and searching for new markets for Vietnam. Third, they are better than Vietnamese entrepreneurs in business management, labor deployment, and fund utilization. With those three merits, FDI fund, despite its inconsideration proportion, is of much importance for Vietnam's economic development, which can not expected from domestic investment fund.

For an acceleration of industrialization and modernization, the role of foreign companies and FDI are even more important. That is the reason why the Vietnamese Government has had policies of such preferential treatment regarding foreign companies that Vietnamese entrepreneurs may envy.

Vietnam's law on foreign investment promulgated in 1987 provides concrete preferential treatment in connection with profit tax, investment forms including 100% foreign investment, transfer of capital and profits to foreign countries... The stipulations in the law are appreciated by world opinions as the most liberal in the region. Since then, the Vietnamese Government has issued scores of decrees, ordinances, and guiding circulars to clarify the implementation the law in such respects as formation, appraisal, and execution of project; finance, banking and export-import; land rent, construction, labor and insurance, establishment of representative office...

Thanks to it, since 1991, the inducement of foreign investment in Vietnam has attained a fairly high growth rate, averaging over 52% per year. By the end of 1994, total direct investment capital which had been signed with foreign companies was over 10 billion USD, and expected to amount to over 15 billion USD in 1995, of which over 30% have been executed. The domains heeded by foreign companies for investment are industry which represents 41%, tourism and services 26.6% and oil and gas 12%. The main forms of investment are joint venture making up 70.6% of

investment capital, 100% foreign capital enterprises 12%, and contractual business cooperation over 15%.

At present, state enterprises are the principal partners in the execution of foreign investment projects representing 98%. Hongkong, Taiwan, Japan, and Australia are the four countries which represent some 50% of total investment capital, with Taiwan in the lead, but in 1995, Japan is growing to take No. 1 place. As Vietnam is still in the process of shifting to market economy, relations with the US have just been normalized (July 1995), such formation and expansion of the domain of foreign direct investment can be considered as the results of the Vietnamese Government's great efforts. However, considering the requirements of the industrialization and modernization course, the scale, growth rate, and contributions of this domain are still small and involve several problems which call for further study. These problems are related to both the Vietnamese Government and foreign companies. Foreign investors often complain of Vietnam's backward infrastructure, inadequate legal system, cumbersome and intricate administrative formalities, poorly trained workforce... But if these problems are to be solved through Vietnam's efforts alone, it will not be sufficient and will take time.

The Vietnamese Government is financially incapable of modernizing at once its socio-economic infrastructure; there needs be the support of foreign governments and international financial organizations. This support has now started to take effects, with a preferential fund loan of about 3.8 billion USD. This is not a considerable amount, but it can help Vietnam to take an initial step in upgrading some necessary infrastructural facilities. The problem arises as to how this amount of fund can be used efficiently, that is to use it for such works and projects as to be able to create favorable conditions for entrepreneurs, and at the same time to increase the Government's revenues to debt clearance. In 1994, the Vietnamese Government spent no more than 400 million from this 3.8 billion of preferential loan. How to use this fund loan with efficiency? Naturally, the

Vietnamese Government should make more efforts in studying the formation of proper projects to spend the money on. But the funding international organizations and governments should also help Vietnam in training specialists on drawing and appraising projects, and send their competent experts to help Vietnam shape these projects. Only under these conditions can Vietnam take more and more preferential loans and use them with efficiency in view of modernizing its socio-economic infrastructure.

Even in a sphere which appears to depend on the Vietnamese Government's exclusive decision, i.e. that of legal system and administrative formalities, I believe Vietnam still need assistance from foreign investors. It is the foreign investors who know best of the inadequate legislation, unreasonable regulations, cumbersome formalities..., and they can make recommendations to the Vietnamese Government for their renovation. Besides, Eastern societies live and act not only by the rule of law, but also by bilateral, even multilateral, consentment. What are still outside the legal pale can be defined by mutual consentment. This is the reason why, despite its inadequate legislation, Vietnam can still accommodate hundreds of foreign companies which operate successfully in Vietnam and no big conflicts have occurred. The societies which have too many laws, like the US, are not without their concomitant demerits, for the high costs of legal services and the elusion of legal punishment by quite a few wealthy culprits.

As regards the vocational training of the Vietnamese workforce, the Vietnamese Government may universalize elementary education, and later secondary education, but the costs of vocational training should be borne by different sources: learners should make their own contribution and should the employer companies. In my opinion, for the immediate stage, foreign companies should make adequate contribution to vocational training for their Vietnamese employees. This will be beneficial not only to Vietnamese employees, but also to foreign companies.



## CONCLUSION

The orientations of Vietnam's policy of industrialization and modernization cannot be sufficiently defined but once. The process of executing industrialization will complement and improve those orientations. But whatever complement and improvement may be made, the following orientations remain stable:

- Socialist orientation, that is industrialization, modernization should aim at building a society in which the people are prosperous, the country strong, and equity and civilization upheld.
- Export orientation, while taking into account the demands of the domestic market which should be met. Voluntary and active participation in the process regionalization and globalization.
- To develop open market economy with various economic components of which the state economy plays the dominant role.
- To develop manufacturing industry, sub-contracting, assembly and services; to encourage medium and small-scale businesses.
- To pay special attention to developing concentrated industrial areas in the coastal regions having deep-water ports.
- To pay special attention to making investment in upgrading the human resource to world standards.

A correct definition of the orientation of the policy of industrialization and modernization is a difficult job, and their successful execution is even more difficult and complicated. The execution of the above-mentioned orientations requires an essential switch in the way of thinking and the style of work, in the socio-economic structure, and also in Vietnamese mentality and practices. Moreover, the switch should unfold within a short period of time, not exceeding 20 to 30 years. This calls for extraordinary endeavors on the part of Vietnamese Government and people, and at the same time the world community's cooperation and support are needed. I am confident that Vietnam will succeed in its shortened industrialization-modernization course along the above-mentioned orientations.